

Future System Operation
Ofgem
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Canary Wharf
London
E14 4PU

System Governance-Electricity Systems
Team
BEIS
Abbey 1, 3rd Floor,
1 Victoria Street
London
SW1H 0ET

1 October 2021

Dear Teams,

CONSULTATION ON PROPOSALS FOR A FUTURE SYSTEM OPERATOR ROLE

We welcome the opportunity to respond to the consultation on the proposed Future System Operator role.

ScottishPower is a major UK energy company with renewable generation, retail supply and network interests. We are a leading developer of wind power in the UK, and part of the Iberdrola Group, the world's leading renewables developer. Our parent company, Iberdrola, is a global leader in tackling climate change with a commitment to reaching carbon neutrality by 2050. This response reflects the views of the ScottishPower businesses. Our networks business SP Energy Networks (SPEN) has responded separately from its perspective as a network licensee.

We broadly welcome the proposals set out in BEIS/Ofgem consultation, but would offer the following high-level comments:

1. **Phased transition.** The Government has set an ambitious 40 GW target for the deployment of new offshore wind by 2030 and has plans to go much further beyond this consistent with the 6th Carbon Budget and meeting the Net Zero challenge. If implemented carefully, the proposed creation of an FSO could be of significant help to the industry in overcoming the challenges around offshore network planning, design and regulation. However, it is vital that the transition from ESO to FSO is done in a phased way, as BEIS is proposing, so as to minimise the risk of disruption to business as usual services on which developers depend. Given the tight delivery timelines (including the 2030 offshore wind target), proposals should be implemented only if it can be objectively demonstrated that they are consistent with, and will add value to, the delivery of those targets.

2. **Enhanced roles.** We are concerned that some of the proposed new roles for the FSO, particularly in the areas of onshore network planning and design, will have the effect of concentrating in one party activities that are more fruitfully carried out collaboratively by relevant stakeholders. (Examples include Scottish Government's Major Energy Projects Group, the ScotWind Roundtable and strategic planning from Marine Scotland's sectoral plan - which then informed Crown Estate Scotland's ScotWind leasing sites). The ESO does not currently have the skills and experience to perform these roles, and if it were to acquire these skills over time we would be concerned that this could be to the detriment of TOs on whom developers are critically dependent for delivery of timely and secure network connectivity. We would also be concerned at any blurring of accountability for the services on which our renewables business depends.
3. **Advisory role.** We agree with the proposed advisory role for the FSO in due course. However, the FSO should be accountable in this role not only to BEIS and Ofgem, but also to the Devolved Administrations in GB, ensuring that it is also supporting the Net Zero ambitions of the Scottish and Welsh Governments.
4. **Dispute resolution.** BEIS says it is considering the case for consolidating or streamlining dispute resolution roles within the FSO, potentially including the FSO taking on a role to determine disputes between industry parties. We believe dispute resolution between industry parties should remain a core role for Ofgem, as the independent sectoral regulator, and we would have concerns about the apparent impartiality of the FSO given the range of new responsibilities it may take on (and indeed without any clarity at this stage on the ownership/organisational model for a new FSO).
5. **System-wide decision making and planning.** Current electricity system decision making and planning lacks the coordination and analysis required to bring forward the level of flexibility and renewable deployment needed to achieve net zero at lowest cost. Decisions are made in short timeframes without giving participants sufficient advance notice and certainty to respond to flexibility market needs. We believe that strategic decision making for the best value and long-term investment in networks and flexibility may be in conflict with the pressure to reduce costs for consumers in the short term. The FSO should therefore support a holistic assessment of the net-zero system requirements, providing investment signals well in advance to promote competition and least regret options.
6. **Ownership/organisational model and Implementation.** BEIS will need to give careful thought to the appropriate ownership/organisational model so as to ensure that it marries up with the intended function and independent role of the FSO, whilst having the right capacities and organisational incentives. Given the importance of the issues raised by this, it will be important to have further consultation on this matter as the thinking develops. More generally, it will be vital that BEIS and Ofgem continue to engage closely with stakeholders as the FSO workstream progresses given the complexity of the issues and the early stage of thinking reached to date. In this context, we also welcome the emphasis placed in the consultation on ensuring that the implementation of the FSO should closely consider the needs of people in the transition, and work hard to avoid uncertainties giving rise to a loss of skilled capacity from the sector. This will be vital in terms of meeting the challenges right now for the energy system whilst effectively supporting the longer-term low carbon transition towards a Net Zero power system.
7. **Impact assessment.** Given the wide ramifications of the proposed changes for the energy system, it is essential that BEIS/Ofgem can robustly demonstrate consumer

benefit and we are pleased that the consultation is accompanied by an impact assessment (IA). However, we would note that costs and benefits in respect of one of the key new roles for the FSO, the introduction of new competition regimes, are based on an IA dating back to 2016. Neither the 2050 Net Zero target nor the 2030 40GW offshore wind target were in place in 2016, and both have significantly changed the scale and urgency of new transmission infrastructure. We would urge BEIS/Ofgem to undertake further work to better understand the consumer impact of these proposals and update the IA accordingly.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

Richard Sweet
Head of Regulatory Policy